

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

<b>Union Electric Company</b>	:	
<b>d/b/a AmerenUE</b>	:	
	:	
<b>Authorizing the Petitioner to issue</b>	:	
<b>\$436,585,000 aggregate principal amount</b>	:	
<b>of First Mortgage Bonds to secure its</b>	:	
<b>obligations relating to certain</b>	:	
<b>outstanding revenue bonds issued</b>	:	<b>03-0743</b>
<b>by the State Environmental Improvement</b>	:	
<b>and Energy Resources Authority of the</b>	:	
<b>State of Missouri in connection with</b>	:	
<b>insuring/credit enhancing such revenue</b>	:	
<b>bonds and to amend outstanding</b>	:	
<b>Loan Agreements relating to</b>	:	
<b>revenue bonds.</b>	:	

**ORDER**

By the Commission:

**Introduction**

On November 26, 2003, Union Electric Company d/b/a AmerenUE ("UE") filed a verified Petition with the Commission seeking permission and authority pursuant to Section 6-102(a) of the Illinois Public Utilities Act, (the "Act") (220 ILCS 5/1-101 *et seq.*), to issue up to \$436,585,000 aggregate principal amount First Mortgage Bonds. These bonds shall secure its obligations relating to certain outstanding revenue bonds issued by the State Environmental Improvement and Energy Resources Authority of the State of Missouri, including its predecessors in interest, (the "Authority") thus enhancing their credit quality. UE also seeks authority to amend outstanding Loan Agreements relating to the revenue bonds. These revenue bonds are currently outstanding; they were issued to refinance pollution control and solid waste disposal projects on behalf of UE.

This matter came on for an evidentiary hearing before a duly authorized Administrative Law Judge at the Commission's Chicago office on January 8, 2004. Appearances were entered by counsel on behalf of UE and by Mr. Michael McNally, with the Financial Analysis Division of the Commission Staff (the "Staff"). Mr. McNally made a statement reflecting Staff's position as to the relief requested in the Petition. Mr. McNally stated that Staff does not oppose granting the relief requested. UE Exhibits A and 1-5, which include UE's verified Petition and the exhibits to the Petition, were admitted into evidence and are discussed below. At the conclusion of the hearing on

January 8, 2004, the record was marked "Heard and Taken." There are no contested issues in this docket.

### **The Evidence Presented**

UE is a corporation doing business as AmerenUE, which is organized and existing under Missouri law. Its registered office in the State of Illinois at 607 East Adams Street, Springfield, Illinois. UE is a "public utility" within the meaning of the Act as it is engaged in providing electric and gas utility services in portions of Illinois and electric and gas utility services in portions of Missouri. It is duly authorized by its Articles of Incorporation to do so. UE is a subsidiary of Ameren Corporation, which is a registered public utility holding company pursuant to the Public Utility Holding Company Act of 1935.

The Authority has previously issued eight separate issues of environmental improvement revenue refunding bonds in the aggregate principal amount of \$436,585,000 (collectively, the "Authority Bonds" and separately, the "Series 1991 Bonds," the "Series 1992 Bonds," the "Series 1998A Bonds," the "Series 1998B Bonds," the "Series 1998C Bonds," the "Series 2000A Bonds," the "Series 2000B Bonds," and the "Series 2000C Bonds"). The prior issuances are described UE Exhibit 1, which was admitted into evidence. Currently, the Authority Bonds bear interest at variable rates, which are determined by an auction agent using a competitive bidding process, or a "dutch auction" procedure.

The Commission's Order approving issuance of the Series 1991 Bonds was issued on December 9, 1991 in Docket 91-0548. The Commission's Order approving issuance of the Series 1992 Bonds was issued on November 10, 1992 in Docket 92-0363. The Commission's Order approving issuance of the Series 1998A Bonds, the Series 1998B Bonds and the Series 1998C Bonds (collectively, the "Series 1998 Bonds") was issued on August 12, 1998 in Docket 98-0532. The Commission's Order approving issuance of the Series 2000A Bonds, the Series 2000B Bonds and the Series 2000C Bonds (collectively, the "Series 2000 Bonds") was issued on February 9, 2000 in Docket 00-0058.

UE entered into Loan Agreements with the Authority in connection with the issuance of each issue of Authority Bonds. Presently, none of UE's obligations related to the Authority Bonds are secured by UE's First Mortgage Bonds. The Series 1991 Bonds were issued to refund environmental bonds of the Authority issued in 1977; these 1977 bonds were issued to refund environmental bonds of the Authority issued in 1975 and 1974 to finance pollution control facilities. The Series 1992 Bonds were issued to refund environmental bonds issued by the Authority in 1984; these 1984 bonds were issued to finance pollution control and solid waste disposal facilities. The Series 1998 Bonds were issued to refund two issues of environmental bonds issued by the Authority in 1984; these 1984 bonds were issued to finance pollution control and solid waste disposal facilities.

Also, the Series 2000 Bonds were issued to refund two issues of environmental bonds issued by the Authority in 1985 and one issue of environmental bonds issued by the Authority in 1990. The bonds issued in 1985 were issued to finance certain pollution control and sewage and solid waste disposal facilities and to refinance certain short-term financing for such facilities. The bonds issued in 1990 were issued to refund environmental bonds issued by the Authority in 1980, which 1980 bonds were issued to finance certain air pollution control, sewage and solid waste disposal facilities.

UE avers that enhancing the credit of the Authority Bonds with bond insurance is prudent, as it generates significant savings of interest it pays. It also increases the marketability of the Authority Bonds. The Authority Bonds are currently rated "A2" by Moody's; BBB+ by Standard and Poors; and "A" by Fitch. UE expects that the ratings of these bonds will be upgraded to "AAA" by all three rating agencies upon gaining insurance coverage. The upgrade should lower the interest rates paid in the future, in a significant amount, when compared to what interest rates would otherwise be with the current ratings. According to UE, this lowered expected interest paid on of the Authority Bonds greatly outweighs the premiums to be paid to the insurers.

UE further maintains that having a "AAA" rating increases the number of potential investors and thus enhances the liquidity of the Authority Bonds and provides for more efficient auctions. "AAA" status additionally shields issuers from "flight-to-quality" and event risks that can occur from time-to-time, which can have a significant effect on the marketability on all but the highest rated securities. UE contends that it can lower the nominal variable interest rate of the Authority Bonds by 0.50% after adding insurance and gaining "AAA" bond ratings, which will result in an aggregate after-tax net present value savings of approximately \$10 million over the life of the Authority Bonds after taking into account all related insurance premiums.

UE has received commitments from two bond insurers. These bond insurers have agreed to issue bond insurance policies securing one or more issues of the Authority Bonds. The insurers will deliver a financial guaranty insurance policy for the Authority Bonds at the closing of the transaction. This guaranty will insure the payment of principal and interest on the Authority Bonds when they become due.

The bond insurers have required UE to, as a condition to the issuance of their respective bond insurance policies, issue its First Mortgage Bonds under its Mortgage and Deed of Trust dated June 15, 1937, as amended May 1, 1941 April 1, 1971; February 1, 1974; and July 7, 1980; February 1, 2000; and August 15, 2002; between UE and The Bank of New York, as successor trustee, as supplemented by one or more supplemental indentures relating to the first mortgage bonds (collectively the "Mortgage"). The Mortgage will be supplemented by Supplemental Indentures relating to each issue of Authority Bonds. The principal, interest and redemption provisions of the First Mortgage Bonds will correspond to those of the related issue of Authority Bonds and will be used only to secure UE's payments and other obligations under the related Loan Agreement. Loan Agreements relating to each series of the Authority Bonds will be amended. The amendments to each Loan Agreement to add a series of

the First Mortgage Bonds to secure UE's obligations under each such Loan Agreement and also will add provisions relating to the rights of the related bond insurer.

UE states that the First Mortgage Bonds will not represent additional debt, as UE is already obligated under the Loan Agreements to pay amounts sufficient to pay the principal of and interest on the Authority Bonds. No capital or funds will be raised as a result of the transaction. According to UE, the proposed transaction will not be detrimental to the public interest; instead, because of the savings it will incur, this transaction will be advantageous to the interests of UE and its customers, and the public will be inconvenienced thereby.

No fee was paid under Section 6-108 of the Act for the previously approved Series 1991 Bonds, Series 1992 Bonds, Series 1998 Bonds and Series 2000 Bonds because the proceeds of those financings were used for the purpose of redeeming and discharging outstanding long-term indebtedness which had been previously approved by the Commission and as to which, the required fees had already been paid. UE asserts in its Petition that no fee is required pursuant to Section 6-108 of the Act in the instant docket because the fees were previously paid and because this transaction will not raise any additional capital.

A copy of UE's Balance Sheet as of September 30, 2003, was admitted into evidence as UE's Exhibit 2. This Balance Sheet shows that UE's capitalization ratios as of September 30, 2003 were: long-term debt and unamortized discount and premium – 39.6 percent; preferred stock – 2.4 percent; and common equity – 58.0 percent. UE represents that issuance of First Mortgage Bonds to secure its obligations relating to the same aggregate principal amount of the Authority Bonds, which are already outstanding, will have no effect on such capitalization ratios.

The Board of Directors of UE has authorized the proposed transaction and a copy of the board resolutions was entered into evidence as UE's Exhibit 3. The following additional exhibits were also admitted into evidence at the hearing:

UE Exhibit 4 — Forms of First Amendments to Loan Agreements to be entered into between UE and the Authority with respect to Series 1991 Bonds, Series 1992 Bonds, Series 1998 Bonds and Series 2000 Bonds, as well as the original Loan Agreements for the Series 1998 Bonds and Series 2000 Bonds since those Loan Agreements have not previously been filed with the Commission.

UE Exhibit 5 — Form of Supplemental Indenture to be entered into between UE and the Mortgage Trustee.

## **Staff's Position**

At the evidentiary hearing, Mr. McNally stated that Staff does not oppose the granting of the relief requested by the Company in its Petition. In his Statement, Mr. McNally opined that his analysis indicates that the proposed issuance will not burden AmerenUE with additional debt obligations, but rather, it will merely be used to secure the currently outstanding Loan Agreements. The terms of the proposed First Mortgage Bonds will mirror those of the Authority Bonds and payments made toward the obligations of the new First Mortgage Bonds will be used for the payment of the obligations of the Authority Bonds.

Mr. McNally also stated that MBIA Insurance Corporation and XL Capital Assurance Inc., the two bond insurers involved in the proposed transaction, are currently rated AAA by both S&P and Moody's. Past rating agency action indicates that the Authority bonds will, after completion of the proposed transaction, be assigned an AAA rating, based on the expected financial guarantee of MBIA and XL.

Further, Staff states that no fee is due under Section 6-108, as Section 6-108(1) of the Act provides that no fee is required, if the proposed issuance is for the purpose of guaranteeing bonds or other securities, which is the case here. (220 ILCS 5/6-108(2)). Staff stated that it does not oppose the issuance of a Commission Order, pursuant to Section 6-102(a) of the Act, authorizing the transaction described in UE's Petition, assessing no fee pursuant to Section 6-108 of the Act, as long as the Order identifies the provisions of the Act and Administrative Code that are applicable to the transaction that is the subject of this docket.

## **Commission Analysis and Conclusions**

The transaction at bar is for the purpose of enhancing the features of UE's pre-existing debt. By entering into the transaction described above, UE will upgrade the rating of the bonds, which results in a substantial savings to UE in the amount of interest it pays. Also, a higher rating enhances the liquidity of these bonds. The Petitioner's request to enter into this transaction is reasonable, as it is advantageous to the interest of UE, as well as the interests of its customers and the public will be inconvenienced thereby. Further, no fee is due because the funds generated therefrom will be used to guaranty a pre-existing debt.

## **Findings and Ordering Paragraphs**

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) Union Electric Company, d/b/a AmerenUE is a corporation engaged in the sale and distribution of electricity and natural gas in Illinois and, as such, is a public utility within the meaning of the Illinois Public Utilities Act;

- (2) the Commission has jurisdiction over Union Electric Company, d/b/a AmerenUE and the subject matter of this proceeding;
- (3) the recitals of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (4) the proposed issuance by Union Electric Company, d/b/a AmerenUE of \$436,585,000 aggregate principal amount of its First Mortgage Bonds, to secure its obligations relating to certain Authority Bonds of the State Environmental Improvement and Energy Resources Authority of the State of Missouri, in particular, the Series 1991 Bonds, the Series 1992 Bonds, the Series 1998 Bonds and the Series 2000 Bonds, is subject to the provisions of Section 6-102(b) of the Act, and is hereby approved in accordance with Section 6-102(a) of the Act;
- (5) the issuance of First Mortgage Bonds by Union Electric Company, d/b/a AmerenUE is reasonably required for the purpose of securing debt associated with the Series 1991 Bonds, Series 1992 Bonds, Series 1998 Bonds and the Series 2000 Bonds;
- (6) in accordance with Section 6-101 of the Act, Union Electric Company, d/b/a AmerenUE must, before issuance of the debt described therein, cause the following to be placed on the face of the respective First Mortgage Bonds: Ill. C.C. No. 6312; Ill. C.C. No. 6313; Ill. C.C. No. 6314; Ill. C.C. No. 6315; Ill. C.C. No. 6316; Ill. C.C. No. 6317; Ill. C.C. No. 6318; and Ill. C.C. No. 6319;
- (7) inasmuch as the proposed transaction is for the purpose of guaranteeing bonds or other securities no fee is required to be paid under Section 6-108 of the Act; and
- (8) Union Electric Company, d/b/a AmerenUE, shall comply with the reporting requirements of 83 Ill. Adm. Code 240.
- (9) the findings and conclusions herein have no precedential effect on further Commission rulings regarding the transactions of Union Electric Company, d/b/a AmerenUE.

IT IS THEREFORE ORDERED that approval is granted to Union Electric Company, d/b/a AmerenUE to issue, execute and deliver an Amendment to Loan Agreement relating to each issue of Authority Bonds and all documents necessary to facilitate the securing of its obligations related to the Authority Bonds and credit enhancing the Authority Bonds with bond insurance.

IT IS FURTHER ORDERED THAT Approval is granted to Union Electric Company, d/b/a AmerenUE to issue, execute and deliver eight separate issues of its

First Mortgage Bonds and the Supplemental Indentures relating thereto, and all other necessary agreements and instruments (including such that constitute evidence of its indebtedness) necessary to secure its obligations related to the Authority Bonds with its First Mortgage Bonds.

IT IS FURTHER ORDERED that approval is granted to incur the indebtedness described herein, providing that Union Electric Company, d/b/a AmerenUE complies with the following conditions:

- (1) incurring said indebtedness shall be only for the purpose stated in Finding (5) of this Order;
- (2) Union Electric Company, d/b/a AmerenUE shall cause the following to be placed on the face of the respective executed copies of the First Mortgage Bonds for Series 1991 Bonds, Series 1992 Bonds, Series 1998A Bonds, Series 1998B Bonds, Series 1998C Bonds, Series 2000A Bonds, Series 2000B Bonds and Series 2000C Bonds: ILLINOIS COMMERCE COMMISSION Identification Nos. Ill. C.C. No. 6312; Ill. C.C. No. 6313; Ill. C.C. No. 6314; Ill. C.C. No. 6315; Ill. C.C. No. 6316; Ill. C.C. No. 6317; Ill. C.C. No. 6318; and Ill. C.C. No. 6319;
- (3) Union Electric Company, d/b/a AmerenUE shall furnish to the Chief Clerk's Office of the Commission a certified and true copy of the Amendments to Loan Agreements within thirty days after their execution.

IT IS FURTHER ORDERED that Union Electric Company, d/b/a AmerenUE shall comply with findings (6) and (8) of this Order.

IT IS FURTHER ORDERED that approval is granted to Union Electric Company, d/b/a AmerenUE to do any and all other things incidental, necessary or appropriate to the performance of any and all acts authorized herein.

IT IS FURTHER ORDERED that, subject to the provisions of Section 16-113 of the Illinois Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 22<sup>nd</sup> day of January, 2004.

(SIGNED) EDWARD C. HURLEY

Chairman